

Message Text

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ACTION OPIC-06

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E.O. 11652:N/A

AGS:EAID, ECON,IS

SUBJECT: CURRENT ECONOMIC PROSPECTS

REF: TEL AVIV 5423, TEL AVIV 6050

1. AS REPORTED REF B, NATIONAL BUDGET WILL NOT BE REVISED. HOWEVER, GOI PREPARING ECONOMIC ESTIMATES WHICH WILL BE PRESENTED TO USG IN NEAR FUTURE AND WHICH WILL OUTLINE ISRAEL'S REQUIREMENTS FOR U.S. ASSISTANCE IN 1978. AUGUST 31 HAARETZ REPORTED THAT GOI WILL PRESENT ECONOMIC DOCUMENT TO U.S. IN NEXT FEW WEEKS SETTING FORTH ISRAEL'S 1978 ASSISTANCE REQUIREMENTS OF \$2.3 BILLION, CONSISTING OF \$1.5 BILLION FOR MILITARY AND \$.8 BILLION FOR ECONOMIC AID.

2. FINANCE MINISTER'S ECONOMIC ADVISOR (DOVRAT) PRESENTED PARTIAL PREVIEW NEW ESTIMATES DURING RECENT VISIT OF OMB OFFICIALS SANDERS AND DUSAULT. GNP FORECAST TO INCREASE THREE PERCENT THIS YEAR, TWO PERCENT IN 1977, SIX PERCENT IN 1978, AND EIGHT PERCENT IN 1979. PER CAPITA CONSUMPTION DECLINED APPROXIMATELY THREE PERCENT IN FIRST QUARTER 1976, FOLLOWED BY THREE PERCENT INCREASE IN SECOND QUARTER, AND IS NOW EXPECTED TO RISE BY TWO AND HALF

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PERCENT DURING YEAR. PRELIMINARY DATA FOR FIRST HALF

1976 REVEAL TRADE DEFICIT DECLINED \$200 MILLION, PRIMARILY AS RESULT OF 22 PERCENT INCREASE IN INDUSTRIAL EXPORTS.

3. DOVRAT SUMMARIZED SIGNIFICANT CHANGES IN DATA FOR 1976 FROM THOSE PRESENTED OMB DIRECTOR LYNN LAST JUNE AS FOLLOWS: \$300 MILLION REDUCTION IN BLANCE OF PAYMENTS CURRENT ACCOUNT DEFICIT; INCREASE (UNSPECIFIED) IN INVESMENT, AND ALSO A \$30 MILLION INCREASE IN CONSUMPTION. SMALLER CURRENT ACCOUNT DEFICIT MEANT LESS BORROWING AND THERFORE REDUCTION IN INTEREST PAYMENTS OF \$40 MILLION. HOWEVER, INDIVIDUAL TRANSFERS COMPONENT OF CAPITAL ACCOUNT WAS ALSO REDUCED BY \$40 MILLION AS A RESULT OF ESTIMATED NET IMMIGRATION OF ONLY 4,000-6,000 THIS YEAR. IMF CREDITS WERE ALSO REVISED DOWNWARD. EXPORTS WERE INCREASING IN REAL TERMS; NO CHANGE IN AVERAGE IMPORT PRICES IN 1976 IS FORESEEN CONTRASTED TO A SIX PERCENT RISE IN 1975. MILITARY EXPORTS ARE NOW REPORTED TO TOTAL \$280 MILLION THIS YEAR. DOVRAT EMPHASIZED THE TENTATIVENESS OF THESE DATA WHICH HAVE NOT YET RECEIVED FINAL APPROVAL.

4. MINISTRY OF COMMERCE AND INDUSTRY'S DIRECTOR GENERAL MANDELBAUM OUTLINED HIS MINISTRY'S FIVE-YEAR EXPORT GROWTH PLAN TOOMB OFFICIALS ON AUG 31. HIGHLIGHTS ARE INDUSTRIAL EXPORTS DOUBLING FROM \$1.6 BILLION IN 1975 TO \$3.2 BILLION IN 1980. PRIMARY COMPONENTS OF GROWTH WILL BE: ELECTRONICS, WHICH INCREASED BY \$100 MILLION LAST YEAR,UP BY ANOTHER \$150-160 MILLION IN 1976 AND REACHING \$550 MILLION IN 1980; CHEMICAL EXPORTS OF \$500 MILLION; DIAMONDS ARE EXPECTED TO CONTRIBUTE \$300-400 MILLION IN VALUE ADDED AS ISRAEL EMPHASIZES SYNTHETICS AND AUTOMATIC CUTTING, POLISHING, AND GRINDING EQUIPMENT; AGRICULTURAL PRODUCTS ARE PROJECTED TO TOTAL \$300 MILLION; AND "FASHION GOODS" \$100 MILLION BY 1980.

5. IN DISCUSSION WITH OMB TEAM, BANK OF ISRAEL (BOI) DIRECTOR GENERAL SHEFFER ESTIMATED \$450 MILLION IMPROVEMENT IN ISRAEL'S TRADE RPT TRADE DEFICIT THIS YEAR, OF WHICH \$300-350 MILLION DUE TO INCREASED QUANTITIES AND \$100-120 LIMITED OFFICIAL USE

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MILLION DUE TO INCREASED PRICES, I.E., BULK OF INCREASE IS REAL. VIEWED ANOTHER WAY, BOI ESTIMATES HAT APPROXIMATELY \$330 MILLION OF IMPROVEMENT WILL BE DUE TO INCREASED EXPORTS, AND \$120 MILLION TO REDUCED IMPORTS AND LOWER THAN ANTICIPATED IMPORT PRICES. MOREOVER,BOI PROJECTS DETERIORATION ON SERVICES ACCOUNT AS TRANSPORTATION INCOME DECLINES AS RESULT OF DECREASED IMPORTS AND ALSO DEPRESSED REVENUES FROM THIRD PARTY SHIPPING. BOI FORESEES

HIGHER THAN EXPECTED INTEREST PAYMENTS FURTHER CONTRIBUTING
TO DEPRESSED SERVICE INCOME.

6. CONCOMITANTLY WITH FAVORABLE BALANCE OF PAYMENTS
DEVELOPMENTS, GOI OFFICIALS ARE INCREASINGLY CONCERNED
WITH INFLATION AND ITS IMPACT ON ISRAEL'S ECONOMY AND
INSTITUTIONS. DILEMMA IS THAT WHENEVER AN AUSTERITY
MEASURE SUCH AS DEVALUATION, SUBSIDY REDUCTION, OR
TAX INCREASE IS TAKEN, PRICES RISE. OF 35 PERCENT
INCREASE EXPECTED THIS YEAR IN CONSUMER PRICE INDEX,
DOVRAT ESTIMATES ABOUT 25 PERCENT WILL BE RESULT OF
GOVERNMENT MEASURES. REMAINING INFLATION WILL BE
CAUSED MAINLY BY INCREASED COSTS WITH LITTLE RESULTING
FROM INCREASED DEMAND, ACCORDING TO DOVRAT.
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